

Message Text

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ACTION TRSE-00

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FM AMEMBASSY BONN

TO SECSTATE WASHDC 7717

INFO USMISSION OECD PARIS

C O N F I D E N T I A L SECTION 01 OF 02 BONN 01905

LIMDIS

PASS TREASURY FOR UNDER SECRETARY BENNETT, ASSISTANT
SECRETARY COOPER, AND L. WIDMAN; OECD PARIS FOR KORP

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: STATE SECRETARY POEHL ON GERMAN POSITION
ON THE SOLIDARITY FUND

1. SUMMARY: STATE SECRETARY POEHL REQUESTS US SUPPORT
FOR A REVERSAL OF BIS REFUSAL TO FLOAT GERMAN
GUARANTEED LOANS FOR THE SOLIDARITY FUND. POEHL SEES
NO OTHER POSSIBILITY FOR GERMAN ADHERENCE TO THE
SOLIDARITY FUND ON ANYWHERE NEAR THE PRESENTLY
CONTEMPLATED SCHEDULE. POEHL STRESSES THAT GERMANY
CONSIDERS THE \$25 BILLION AS THE LIMIT OF THE FUNDS
ENGAGEMENT DURING TWO YEARS AND INSISTS THAT THE FUND
TRULY BE A LENDER OF LAST RESORT ONLY. END SUMMARY.

2. FINANCE MINISTRY STATE SECRETARY POEHL REQUESTS
THAT FRB CHAIRMAN BURNS, OR WHOEVER WILL BE REPRESENTING
THE US, AT THE NEXT BIS MEETING ON FEBRUARY 10 SUPPORT
GERMAN EFFORTS TO BRING ABOUT A REVERSAL OF THE BIS
REFUSAL TO FLOAT WITH A GERMAN GOVERNMENT GUARANTY
LOANS WHICH MIGHT BECOME NECESSARY TO FINANCE
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CONTRIBUTIONS TO THE SOLIDARITY FUND THAT THE FEDERAL

REPUBLIC MAY BE CALLED UPON TO MAKE. THE FEDERAL GOVERNMENT IS ASKING BUNDESBANK KLASSEN TO PRESS THE GERMAN CASE AT THE BIS AND IS ALSO TRYING TO LINE UP SUPPORT FROM THE FRENCH (WHERE APEL IS PLANNING TO RAISE THE ISSUE WITH FOURCADE) AND OTHERS.

3. POEHL TOLD THE FINANCIAL ATTACHE THAT HE WOULD NOT BE READY TO RECOMMEND TO APEL, AND HE KNEW THAT APEL WOULD BE UNWILLING TO RECOMMEND TO THE CABINET, THAT GERMANY SIGN A SOLIDARITY FUND AGREEMENT UNLESS THE FINANCING OF THE GERMAN CONTRIBUTION WAS FULLY ASSURED. IN POEHL'S VIEW, THE ONLY WAY THAT THIS COULD BE DONE ON THE PRESENTLY ENVISAGED TIMETABLE WOULD BE IF THE BIS AGREED TO FLOAT SUCH ISSUES. POEHL FELT THAT IT WAS NOT UNREASONABLE TO ASK THE BIS TO ACT IN THIS MANNER AND THAT IF THERE WERE LEGAL OR ADMINISTRATIVE DIFFICULTIES IN THE WAY OF ITS DOING SO, THESE SHOULD BE REMOVED IF NECESSARY EVEN BY AMENDING ITS CHARTER.

4. POEHL DISCOUNTED THE POSSIBILITY OF HAVING THE SOLIDARITY FUND ITSELF FLOAT THE BONDS AMONG OTHER REASONS BECAUSE IT WOULD NOT HAVE THE SAME STANDING IN THE MARKETS AS THE BIS AND MIGHT ENCOUNTER PARTICULAR RELUCTANCE TO INVEST FROM THE ARABS. POEHL REFERRED TO THE LEGAL AND CONSTITUTIONAL DIFFICULTIES OF RAISING THE MONEY THROUGH THE GERMAN BUDGET OR A GERMAN INSTITUTION SUCH AS THE KFW (RECONSTRUCTION LOAN CORPORATION). HE SAID THAT HE PERSONALLY WAS NOT SO SURE THAT THE CONSTITUTIONAL OBJECTIONS WOULD STAND UP IN THE LAST ANALYSIS. BUT THIS WAS REALLY IRRELEVANT. THE GERMAN GOVERNMENT SIMPLY WAS NOT READY POLITICALLY TO FACE THESE CONSTITUTIONAL ISSUES OR THE INCREASED GOVERNMENT DEFICIT AT THIS TIME. SIMILARLY, IT WAS DOUBTFUL IF THE CENTRAL BANK COUNCIL WOULD AGREE TO ANY BUNDESBANK FINANCING OF A GERMAN CONTRIBUTION BEYOND SOME LIMITED PREFINANCING. BUT IN ANY CASE, CHANCELLOR SCHMIDT AND THE ECONOMIC SUBCOMMITTEE OF THE CABINET HAD AT THEIR LAST MEETING MADE IT ABUNDANTLY CLEAR THAT THEY WERE NOT READY FOR

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POLITICAL REASONS TO CONTEMPLATE ANYTHING BEYOND A GERMAN GUARANTY OF BIS BORROWING. POEHL IMPLIED THAT WHILE A REVERSAL OF THIS POSITION IN THE LONG RUN WAS, OF COURSE, POSSIBLE, IN THE SHORT TO MEDIUM RUN IT WAS HIGHLY UNLIKELY. HE THEREFORE HOPED THAT THE US WOULD DO WHAT IT COULD TO BRING ABOUT A REVERSAL OF THE ATTITUDE OF THE BIS.

5. POEHL SAID THAT ANOTHER MISUNDERSTANDING HAD APPARENTLY ARISEN. THE GERMANS HAD ALWAYS PROCEEDED ON THE BASIS THAT THE SOLIDARITY FUND SHOULD BE LIMITED

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TO \$25 BILLION FOR TWO YEARS. THEY FELT IT WOULD BE A MISTAKE TO GIVE ANY INDICATION THAT THIS SUM COULD BE UPPEDED AND WERE NOT PREPARED TO ACCEPT LANGUAGE TO THIS EFFECT IN THE AGREEMENT. SUCH LANGUAGE WOULD BE POLITICALLY DIFFICULT FOR THEM IN THE BUNDESTAG AND ONLY SERVE TO ENCOURAGE LESS RESPONSIBLE POLICIES IN SOME POTENTIAL RECIPIENT COUNTRIES. POEHL CONCEDED THAT THE GERMANS HAD THROUGH A SLIP-UP ACCEPTED LANGUAGE IN THE WASHINGTON COMMUNIQUE WHICH SEEMED TO ENVISAGE THE POSSIBILITY OF REPLENISHMENT. HE SAID THAT IN FACT ONE, OF COURSE, ALWAYS COULD AGREE TO ADDITIONAL MONEY. BUT THE GERMANS WERE NOT PREPARED TO SPECIFICALLY ENVISAGE THIS POSSIBILITY IN THE AGREEMENT.

6. FINALLY, POEHL SAID IT SHOULD BE VERY CLEARLY UNDERSTOOD THAT GERMANY CONSIDERED THE SOLIDARITY FUND AS TRULY A LENDER OF LAST RESORT ONLY. THE FRG WOULD NOT BE PREPARED, FOR EXAMPLE, TO HAVE THE FUND MAKE LOANS TO ITALY BEFORE ITALY HAD USED ITS LARGE

GOLD RESERVES. WHILE HE DID NOT INSIST ON THE
INTRODUCTION OF "LAST RESORT" LANGUAGE INTO THE
AGREEMENT ITSELF, HE WANTED TO MAKE THE GERMAN
POSITION ABSOLUTELY CLEAR IN ORDER TO AVOID LATER
MISUNDERSTANDINGS.

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